

State of California

Rating

General Obligation Bonds AA-

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(916) 653-2995**New Issue Details**

\$600,000,000 General Obligation Bonds for bids on April 21. Bonds will be due Oct. 1, 1998–2027; bonds due on and after Oct. 1, 2011 are callable beginning on Oct. 1, 2008 at 101%. Bidders may specify term bonds with mandatory redemption.

Security: General obligations of the State of California; full faith and credit pledged. Continuing appropriation for debt service subject only to the prior application of moneys in the general fund to the support of the public school system and public institutions of higher education.

■ Outlook

California's economy continues to rebound, with good employment gains since 1995 and personal income growth returning to the national level. Economic recovery has allowed a return to financial stability and the accumulated deficit, exclusive of the school loan liability, has been erased. Operations in 1996–97 were successful, with revenues well above estimates. The 1997–98 actual and 1998–99 proposed budgets contain small operating deficits, but narrow reserve balances are retained. Continued, although moderating, growth is forecast although complications from the economic shock in Asia, a major trading partner, are an uncertainty. While the economy and financial operations have returned to normal, structural problems such as the restrictions imposed by restructuring initiatives, including mandates of strict property tax limits and the share of the budget that must be devoted to education, continue to limit flexibility.

■ Rating Considerations

The current issue will be used to retire short-term commercial paper notes used to finance K–12 capital facilities, and in some cases to pay costs of program operation. The state's commercial paper program has been revised downward to \$1.5 billion from \$1.75 billion outstanding; about \$451 million will remain outstanding after this sale. With this issue, net tax-supported debt amounts to \$22.2 billion, or \$704 per capita and 2.8% of personal income. A substantial amount of general obligation bonds, about \$6.5 billion, remains authorized but unissued; the governor seeks additional bonding authority of \$13.2 billion, of which \$11.7 billion would be general obligations (\$8 billion for schools) and the remainder lease obligations.

The economy continues its rebound, with employment up 2.8% in 1996 and in January 1998 (compared to January 1997) up 4.4%. In January, all sectors continued to gain, with construction up 12.6%, services 5.8%, manufacturing 4%, FIRE 3.7%, trade 3.6%, and government 1.5%. The unemployment rate, at 6.6% is still considerably higher than the 4.7% national rate, but improved from 7.2% in 1996 and 7.8% in 1995. Personal income in 1995 and 1996 slightly surpassed the national growth rate for the first time since 1990, and on a per capita basis in 1996 as well. The state's personal income rose 6.6% in third quarter 1997, well above the national rate of 5.4%. In 1996, state per capita income amounted to \$25,346, equal to 104% of the U.S. figure, ranking the state thirteenth. Traditionally, California had been in the top 10 states by this measure. The proposed 1998–99 budget assumes that employment will grow 2.8% in 1998 and personal income by 6.3%.

Results for 1996–97 were favorable. After accrual adjustments, the controller's report indicates a draw on opening fund balance, leaving \$906 million available for

1997–98. It is currently estimated, on a budgetary basis, that the general fund will have revenues of \$52.889 billion and expenditures of \$53.021 billion, leaving an operating deficit of \$132 million and a closing fund balance of \$774 million. The budget reserve is projected at \$329 million, compared with \$461 million at June 30, 1997. Revenues were upwardly revised at the time of the 1998–99 budget presentation, and cash collections through nine months are \$301 million above the fore-

cast, with the entire overage occurring in the last two months. Personal income taxes accounted for \$145 million, with sales tax providing \$109 million above forecast. The proposed budget for 1998–99 projects revenues of \$455.383 billion and expenditures of \$55.416 billion, leaving a closing balance of \$741 million, of which \$296 million represents the reserve, a narrow margin. Revenues are expected to increase 4.7%, with the personal income tax up 6.4%. The budget is absorbing about

\$600 million in tax reductions enacted in 1997, and \$308 million in interest on the pension case judgement payment of \$1.2 billion made in 1997–98. Partial offset is expected from some \$500 million in additional revenues reflecting capital gains realizations.

For further details on the State of California, please refer to Fitch IBCA Research dated March 5, 1998; Feb. 17, 1998; and Oct. 6, 1997 available on Fitch IBCA's web site at www.fitchibca.com.

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